

Competition hasn't cut electric rates: study

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Electricity customers in Pennsylvania and other states that restructured their power industry to create a more competitive market now pay more for electricity than consumers in noncompetitive states, a study released Tuesday concludes.

On average, power users in restructured states pay 2 to 3 cents per kilowatt hour more than customers in states that didn't restructure, according to "Electricity Prices and Costs Under Regulation and Restructuring," a study published by Carnegie Mellon University's Electricity Industry Center. A kilowatt hour is one kilowatt of power used in one hour. "Were we surprised by the results -- absolutely," said Jay Apt, executive director of the center and one of the authors. "We didn't expect what we found."

The study's authors were the CMU center's co-director, Lester Lave; Apt; and Seth Blumsack, a Penn State assistant professor of energy policy and economics. The study looks at what companies pay for power and what they charge their customers. The professors found that utilities in restructured states were in general more efficient and productive, getting the most from both man and machine.

"However, consumers are not seeing the benefit of gains through competition," Apt said.

The 39-page study is based on an examination of data from 71 utilities in 37 states that have and haven't restructured their power generation. Among the companies examined are Allegheny Energy Inc.'s power distribution units that do business as Allegheny Power. While the study was funded by several utilities, including one of the largest regulated power companies in the country, Atlanta-based Southern Co., Apt said the CMU Electricity Industry Center receives funding from a variety of utilities, along with such groups as the Sloan and National Science foundations. "We feel that it's still a little too early to give a final grade to restructuring when it hasn't run its course," said David Neurohr, a spokesman for Greensburg-based Allegheny Energy. "It took nearly 100 years for utilities to advance before restructuring, and restructuring only has been in place about 12 years." Neurohr added that when restructuring was put in place, all utilities were placed under rate caps that, in his words, "were too low for most companies to compete."

"I admire companies like Allegheny (Energy) and Exelon (Corp., parent of PECO Electric in eastern Pennsylvania), who have managed to successfully navigate very hazardous, unregulated markets," Apt said. Apt added that utilities in restructured markets such as Pennsylvania also have seen significant increases in their stock prices. Allegheny Energy in the last four years has seen its stock price jump 440 percent, from \$12.03, to \$64.99 on Dec. 21. Its stock closed Tuesday at \$51.83, up \$1.18.

Because the electric power industry is so capital intensive, Apt suggested that when a utility goes to Wall Street to borrow money to build a power plant, money lenders require stronger earnings from a company in a competitive market. "That level of price markup might be the cost for added risk for operating in a restructured market," Apt said.